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Fgura Local Council
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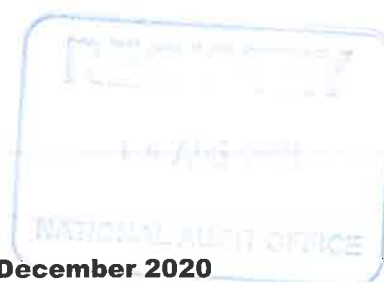
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Our ref MB/mf/91721

30 July 2021

Dear Sir,



Financial statements for the year ended 31 December 2020

During the course of our audit for the year ended 31 December 2020 we have reviewed the accounting system and procedures operated by your council. We have also reviewed the operations of the council and how they conform to the Local Councils Act, 1993, the Financial Regulations issued in terms of this Act, and the supplementary Financial Procedures. We set out in this report the more important points that arose as a result of our review.

1 Previous management letter

1.1 Income

We again encountered instances where income was not classified correctly (refer to note 2.1).

We identified instances where the council did not deposit receipts on a timely basis (refer to note 2.9).

We did not identify discrepancies in LES administration fees.

1.2 Expenditure

The council is still not insuring his assets appropriately (refer to note 3.1).

1.3 Fixed assets

We again identified discrepancies between the unaudited fixed asset register and financial statements (refer to note 4.1).

We again noted that the fixed asset register does not include all the details (refer to note 4.3).

The council failed once again to show the property which is being rented out as investment property (refer to note 4.6).



1.4 Trade receivables

We were not provided with pre-regional 483 report so we could not compare the movement with report 622 (refer to note 5.6).

We again identified long outstanding receivables (refer to note 5.1).

1.5 Trade payables

The council still did not resolve the matter of long outstanding creditors (refer to note 7.1).

The council is still not obtaining all suppliers' statements (refer to note 7.3).

We did not encounter with any shortcomings in accrued expenditure.

We again identified shortcomings in deferred income (refer to note 7.5).

1.6 Meetings

We again identified a councillor that failed to attend more than one third of the meetings called (refer to note 8.1).

1.7 Financial statements

We identified shortcomings in the financial statements' presentation (refer to note 11.1).

1.8 Electronic site

We again identified shortcomings in uploading of documents on the council's electronic site (refer to note 12.1 and 12.3).

2 Income

Income from Central Government

2.1 The council received an amount of €1,824 in relation to 'adjustment fund for decrease in allocation from 2019'. This was incorrectly recorded with Government allocation account rather than with 'other Government income'. We have proposed an audit adjustment to rectify the issue. This has been reflected in the final set of financial statements.

2.2 We recommend that the council discloses all income received from Government or Governmental entities, which is not part of the annual allocation, as 'other Government income', unless otherwise directed by the Department.

Other Government income

2.3 The council recorded an accrued income amounting to €2,890 in relation to the library scheme against 'other Government income'. In previous year, the council has decided to not undertake the scheme. During the year under review the council issued a cheque to reimburse the Department for Local Government. To this end we have proposed an audit adjustment to reverse accrued income against 'other Government income'. The council has amended the financial statements to include our audit adjustment.

- 2.4 We recommend that the council accurately establishes accrued income and therefore ensures that income is not misstated and is reported in the correct period.
- 2.5 Whilst testing other Government income, we also noted that the council recorded an amount of €3,247 as other Government income against accrued income in relation to Car Free Day. We noted that the council received the total amount of €1,500 after year end. Thus, the accrued income was overstated by €1,765. To this end, we have proposed an audit adjustment to rectify the issue. The council has amended the financial statements to include our audit adjustment.
- 2.6 We reiterate our recommendation that the council should account for accrued income appropriately to not overstate the income.

Income from rental of civic centre

- 2.7 We again noted that the council has classified the receipt of €26,000 from the Foundation for Social Welfare Services, with respect to the rental of the second floor of the civic centre, in a separate account in general income rather than with funds received from Government.
- 2.8 We reiterate our recommendation that the council discloses all income received from Government entities which is not part of the annual allocation as other Government income.

General income

- 2.9 We came across certain instances where the council failed to deposit receipts on a timely basis. The following are examples which we encountered during the audit:

Description	Receipt number	Receipt date	Deposit date	€
Permit	22194	21.01.2020	29.01.2020	15
Permit	22284	21.02.2020	28.02.2020	40

- 2.10 We recommend that the council deposits cash twice weekly, primarily to comply with the Local Council (Financial) Procedures but also for security purposes.

3 Expenditure

Asset insurance policy

- 3.1 We reviewed the council's insurance policy and noted the following discrepancies between the insurance cover and Net Book Value (NBV) in the 2019 audited financial statements:

Asset	Sum insured €	NBV in 2019 audited financials €
Buildings	1,065,000	678,671
Office furniture and fittings	151,310	4,478
Office equipment	30,159	6,029
Plant and machinery	1,685	76
	1,248,154	689,254



3.2 It is evident that some of the fixed assets are over insured. May we advise the council to perform at least an annual review of its insurance policy in order to ensure that the council’s insurance coverage is in line with current legislation.

3.3 Directive 3/2017 and Legal Notice 269 of 2017 state that the council must ensure that administrative offices, including all the furniture and office machinery are insured by a ‘buildings and content’ insurance. The insurance shall cover fire, theft and damage due to natural events. Circular 33/2016 also states that the insurance policy should be based on the net book value of assets included in the last audited financial statements. However, since a significant number of assets have a nil net book value and therefore we recommend that the insurance at least covers the replacement value for assets.

Personal accident insurance

3.4 We have also noted that the council has taken up two personal accident insurances during 2020. The combined insurance policy offers the insurance cover of personal accident for the period 5 September 2020 to 4 September 2021. Additionally, the council is also insuring personal accident insurance under the AKL insurance scheme which covers the period January to December 2020.

3.5 We recommend that the council reviews all the insurance policies and ensures that the policies in place are not covering the same risks.

Procurement procedures

3.6 Our testing on cheque payments revealed instances where a purchase was not supported by appropriate number of quotations in accordance with the Procurement Guidelines 2017. Examples include:

Details	Supplier	€	Note
IT maintenance and agreement	PC Generations	2,921	(a)
500 stickers to affix to bins & 500 blank stickers for numbering	NAB Signs	915	(b)
Changing of 13amp fuse switch to 20amp unfused switches	Sean Theuma	760	(b)

(a) The council failed to provide us with quotations.

(b) The council obtained one quotation.

3.7 In accordance with the Procurement Guidelines 2017 issued by the Department for Local Government the council should obtain at least three signed quotations for purchases exceeding €50 up to €5,000 unless, for purchases exceeding €50 but not €500, a direct order approved by the executive secretary is issued.

Cultural activities

3.8 The council incurred €3,669 for the locality day, thus exceeding the threshold of €3,500 by €169.

3.9 This contravenes memo 8/2011 which limits expenditure on the locality day to €3,500 or 0.5% of annual Government allocation (equivalent to €3,485), whichever is the higher.

Classification of expenditure

- 3.10 During the audit testing on expenditure, we noted that the council erroneously classified the amount of €3,022 pertaining to performance bonus of 'District Operations Workers' in the printing account. We have proposed an audit adjustment to rectify the issue. The council has amended the financial statements to include our audit adjustments.
- 3.11 We recommend that the council should allocate its expenditure to the appropriate accounts so that the expenses of the council are properly reported.

Christmas dinner

- 3.12 We noted that an amount of €660 was spent on Christmas dinner held during 2020. OPM Circular 23/202 states that government entities were specifically required not to pay out, in total or in part, any expenses related to Christmas staff parties through government funds. This was done to conform with directives issued by the health authorities.
- 3.13 We emphasise the importance of following Government issued circulars, and it is the full responsibility of the executive secretary to ensure compliance with amendments issued from time to time.

4 Fixed assets

Reconciliation of unaudited financial statements to fixed asset register

- 4.1 During our audit fieldwork, we noted that the fixed asset register does not agree to the unaudited financial statements. The following is a summary of the differences:

Asset category	NBV in fixed asset register €	NBV in unaudited financial statements €	Difference €
Acquisition of property	-	465,711	(465,711)
	-	465,711	(465,711)

- 4.2 We recommend that the council investigates the variance and updates the fixed assets register and/or accounting records accordingly.

Upkeep of fixed asset register

- 4.3 The fixed asset register does not include important information such as suppliers' details, invoice number and location of assets. Although we appreciate that the council's accounting system allows the fixed asset register to be issued in various formats, the council is still unable to furnish a single fixed asset register report showing all necessary details.
- 4.4 The fixed asset register should at least include the following details:

- Description of asset
- Date of purchase
- Supplier details
- Invoice number
- Asset tag code (where applicable)
- Cost
- Depreciation method and rate
- Location of the asset
- Grants received

4.5 We suggest that the council updates its fixed asset register and categorises assets appropriately. This will ensure the appropriate treatment of depreciation and hence the correct net book value.

Investment property

4.6 We again noted that the second floor of the civic centre is being rented out to the Foundation for Social Welfare Services which operates as an independent entity. Consequently, that part of the civic centre being rented out should be classified as investment property and falls under the provisions of IAS 40 '*Investment Property*'. No audit adjustment was proposed since we were not provided with the cost of the second floor. Our audit report has been modified to include the failure to adopt the requirements of IAS 40.

4.7 We reiterate our recommendation that the council confirms the cost of the floor which is being rented out with the architect. This should include any equipment and other capitalised costs in relation to this floor.

5 Trade receivables

Long outstanding receivables

5.1 Included with trade receivables are the following amounts which have been outstanding for more than one year:

Debtor	€
Chris Ellul	116
CieloMed Enterprises Ltd	58
Rhianydd Demanuele	248
Wastserv Malta Ltd	15,918
Water Services Corporation	29,181
	<u>45,521</u>

5.2 From the list mentioned in note 5.1, we would like to point out that the balances due from Chris Ellul and Water Services Corporation are partially provided for. From the balance due from Chris Ellul, the amount of €59 is provided for whilst €28,841 is provided for out of the total balance due from Water Services Corporation.

5.3 We recommend that the council follows up on these outstanding debtors for payment and ensures that all amounts are received.

Confirmation of debtor

- 5.4 We have obtained a confirmation from Wasteserv Malta Ltd showing a balance of €32,509 due to the council. However, the council's books of account indicate a balance of €30,491. No audit adjustment was proposed since we were not provided with an explanation for the discrepancy amounting to €2,018.
- 5.5 We recommend that the council contacts Wasteserv Malta Ltd and resolves the discrepancy. Furthermore, the council should also chase for the payment.

Pre-regional LES debtors

- 5.6 During our review of pre-regional LES debtors, we noted that the decrease in tribunal pending payments in report 622 was €644. We were informed by the council that no report 483 for pre-regional contraventions could be issued since nothing was paid during the year.
- 5.7 The findings above cast doubts on the integrity of the data being generated from the Loqus IT system. Therefore, we recommend that the council takes the matter up with Loqus to determine what this difference pertains to. We also recommend that the council accounts for the movement from year to year so that the council is aware of what amounts are still due from pre-regional debtors at any point in time.

Accrued income

- 5.8 Whilst testing accrued income, we noted that it includes €1,000 in relation to Christmas decorations reimbursement from Regjun Xlokk. We were provided with the invoice issued by the council dated 22 December 2020. To this end we have proposed an audit adjustment to reclassify amount from accrued income to debtors. The council has amended the financial statements to include our audit adjustment.
- 5.9 We remind the council that the books of account should reflect the actual amounts received or still to be received. This would ensure that the books of account show a true view of the situation.
- 5.10 During the year under review, we noted that the council has accounted for €4,600 in relation to LESA funds for cultural activities as accrued income. We noted that up to date of audit fieldwork this amount was not received as the project is still in process. To this end we have proposed an audit adjustment to reverse accrued income against other Government income.
- 5.11 We recommend that the council records accrued income only once an approval is provided and a written agreement is signed by all parties and it is certain that the amount will be received.

6 Bank**'LC other entities' bank account**

- 6.1 We noted that during the year under review the council did not open a new bank account to deposit and transfer the money to other entities.
- 6.2 Directive 5/2020 states that the council should open a bank account with the name 'LC Other Entities Account' so that the council can deposit funds and subsequently transfer funds to the appropriate entity. This Directive came into force on 1 September 2020. To this end, we recommend that the council makes the necessary arrangements to be in line with this directive.

Bank account representative

- 6.3 We noted that for certain BOV bank accounts, the previous executive secretary is still shown as a signatory.
- 6.4 We recommend the council instructs the bank to update the account representatives for security reasons.

7 Trade payables

Long outstanding creditors

- 7.1 Whilst reviewing the council's aged suppliers' list we again noted that the council has long overdue balances which amount to €19,298. The following are the long outstanding creditors:

Creditor	€
Neville Montebello	3,692
Waste Collection	3,717
Rocco Mifsud	11,262
Wasteserv Malta Ltd	369
Go plc	258
Total	<u>19,298</u>

- 7.2 We advise the council to individually review these amounts, and either settle them or, if not due, reverse them after careful consideration and approval by the council. All discussions and decisions taken should be minuted accordingly.

Supplier statements

- 7.3 We again noted that the council did not obtain statements as at or near year-end from all suppliers to confirm the year-end balances and to ensure the completeness of the books of account. Circulars issued from time to time by the Department for Local Government specifically emphasise that the council should acquire monthly statements from all its suppliers.
- 7.4 We understand that the council does make every effort to obtain statements from its suppliers and that sometimes it is difficult to obtain monthly statements due to suppliers' inefficiency. However, we recommend the council keeps on chasing its suppliers for regular statements. This will ensure that the council's creditors are properly recorded in the accounts and that any differences or disputes are highlighted promptly.

Advance payment

- 7.5 Whilst testing deferred income, we noted an amount of €9,607 in relation to a grant received for the irrigation scheme. The agreement states that the work should be carried out by 30 April 2020 and if the works are not performed the council should reimburse the amount provided. We were informed that no works were carried out in relation to this scheme. We noted that in previous year, we proposed an audit adjustment to reclassify the amount from deferred income to advance payment. This was correctly incorporated in the previous year financial statements however not reflected in the council's books of account. To this end, we have proposed an audit adjustment amounting to €9,607 to reclassify amount shown in deferred income as

advance payment. The council has amended the financial statements to include our audit adjustment.

- 7.6 We recommend that the council liaise with the Department for Local Government to discuss the way forward in this regard.

Court case

- 7.7 During the year under review, we noted that the council had a court case which was terminated in 2021. In accordance with the judgement the council was found liable to pay the amount of €46,511. To this end we have proposed an audit adjustment to record a payable.

- 7.8 We recommend the council that when the court decisions are terminated the books of account are updated accordingly.

8 Meetings

Attendance at meetings

- 8.1 We noted that one councillor did not attend more than one third of the meetings called.
- 8.2 The Local Councils Act stipulates that the Minister should have been informed of the absence and, if due to a justifiable cause, transmit its recommendation not to declare the seats vacant.

Councillors' excuse letters

- 8.3 When reviewing the minutes for meetings held during 2020, we noted that councillors were excused in the following meetings however we were not provided with letter of excuse giving reasons for their absence:

Meeting date	Meeting no.
24.06.2020	16
29.07.2020	18
26.10.2020	25

- 8.4 We recommend that the council obtains excuse written letters of excuse. Following a discussion as to acceptance or otherwise, letters should be attached to the minutes. We remind the council that memos and circulars state that a valid reason should be presented in writing to the council.

9 Schedules of payments

Cancelled cheques

- 9.1 We noted that the cheques 13213, 13258, 13357, 13453, and 13524 were approved during meeting minutes. However, we noted that these cheques were cancelled.
- 9.2 We recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedule of payments. The cancelled cheque should be retained as evidence of its cancellation.

Omitted cheque

- 9.3 Furthermore, cheque 13494 amounting to €296 was omitted within the schedule of payments.
- 9.4 In accordance with P1.11 of the Local Councils (Financial) Procedures, 1996 the executive secretary must prepare complete and accurate schedules of payments containing information in sequential order and present them for council's approval. We recommend that the schedules of payments are reviewed for accuracy and jointly signed by the mayor and the executive secretary to serve as evidence that these have been duly approved by the council. We also recommend that if a cheque payment is cancelled this should be approved and properly indicated on the schedule of payments.

10 Books of account

- 10.1 During audit fieldwork we identified a number of transactions passed in the books of account which consisted of grouped transactions. The nominal ledger did not include details identifying the items which are reclassified and thus it was difficult to trace all movement. This was noted in year-end adjustments posted in the books of account as at 31 December 2020.
- 10.2 Transactions in the books of account should be posted individually. In particular all journal entries should be substantiated by a detailed narrative explaining the purpose of the journal entry.

11 Financial statements**Presentation of financial statements**

- 11.1 We would like to point out that in accordance with the Department's communications and instructions, councils shall prepare their financial statements in conformity with International Financial Reporting Standards. The council's financial statements diverge from this requirement in the instances noted below:
- i. In note 2 'Accounting Policies and reporting Procedures', the council is stating that they have adopted IFRS 15 and IFRS 16 in 2020 when these were adopted in 2018 and 2019, respectively. Also, IFRS 16, which is applicable for period starting 1 January 2019 is mentioned that this is not yet effective.
 - ii. The year for the comparative figures of the property plant and equipment schedule should be 2019 rather than 2020.
 - iii. There is a casting error in property plant and equipment schedule as total additions should be €7,569 rather than €1,791
 - iv. Note 16, 'Receivables' should separately disclose accrued income from prepayments.
 - v. Note 21, 'Contingent liability and assets', last paragraph is referring to note 20. However, this should refer to note 919.
 - vi. Note 25, 'Summary of financial assets and liabilities', in 2019 the council failed to include accrued income as a financial asset in the financial risk management note.
 - vii. Note 25, 'Summary of financial assets and liabilities' the council failed to include accruals as financial liabilities in the financial risk management note in 2019 and 2020.

- 11.2 We recommend that the council gives more attention to the preparation of the financial statements. The council correctly amended points i to iv in the audited financial statements. However, the council failed to amend points v to vii.

12 Electronic site

- 12.1 We identified the following shortcomings in the uploaded documents on electronic site. The following are some examples:

- (a) Quarterly financial reports for January to September 2020 were not uploaded within the publishing time limits.
- (b) The reply to the management letter 2019 was not uploaded within the stipulated timeframe.

- 12.2 This contravenes the Local Councils (Financial) Procedures which mandate specific timelines for these reports and minutes. We recommend the council uploads all documents in pdf within the required time period. Furthermore, the council should indicate as signed all documents uploaded as confirmation that the uploaded documents have been approved and are the correct ones.

Uploading of management letter and other documents

- 12.3 We also noted that the council has uploaded the 2019 Management Letter in full in accordance with circular 21/2019.
- 12.4 We would like to remind the council of the recent General Data Protection Regulations as indicated to councils in SPI 7/2018. Councils should be mindful that there are restrictions on transmitting/ publishing information regarding personal data. Therefore, certain documents should be carefully scrutinised to ensure that they do not contravene GDPR prior to uploading on the website. This is also highlighted in Circular 7 of 2019 which states that names of third parties not directly connected with the operations of the council should not be published.
- 12.5 We therefore recommend that the council contacts the Department for clarification of this contradiction.

Conclusion

We would like to point out that the matters dealt with in this report came to our notice during the conduct of our normal audit procedures which are primarily designed for the purpose of expressing an opinion on the financial statements of the council. In consequence our work did not encompass a detailed review of all aspects of the system and cannot be relied upon necessarily to disclose defalcation or other irregularities or to include all possible improvements in internal control that a more extensive special examination might develop.

We would like to take this opportunity to thank Ms Cynthia Plumpton and her staff for their co-operation and assistance during the course of the audit.

Yours faithfully,

